

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**

**YEAR ENDED JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Tri-Valley Academy of Arts and Academics

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-Valley Academy of Arts and Academics (the Academy), as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tri-Valley Academy of Arts and Academics' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-Valley Academy of Arts and Academics as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Academy's charter was not renewed by its authorizer and the Academy was unable to obtain authorization to operate the public school academy from any other authorizing body beyond June 30, 2008. As a result, the Academy ceased substantially all operations as of June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2009 on our consideration of Tri-Valley Academy of Arts and Academics' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 19 and 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maner Costerisan PC

February 9, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Tri-Valley Academy of Arts and Academics' (Tri-Valley or the Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The Academy had a decrease in the fund balance for the general fund of \$214,857. This gives the Academy a fund balance in the general fund of \$164,870.
- The Academy's net assets decreased by \$292,059 during 2008 to \$186,706.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

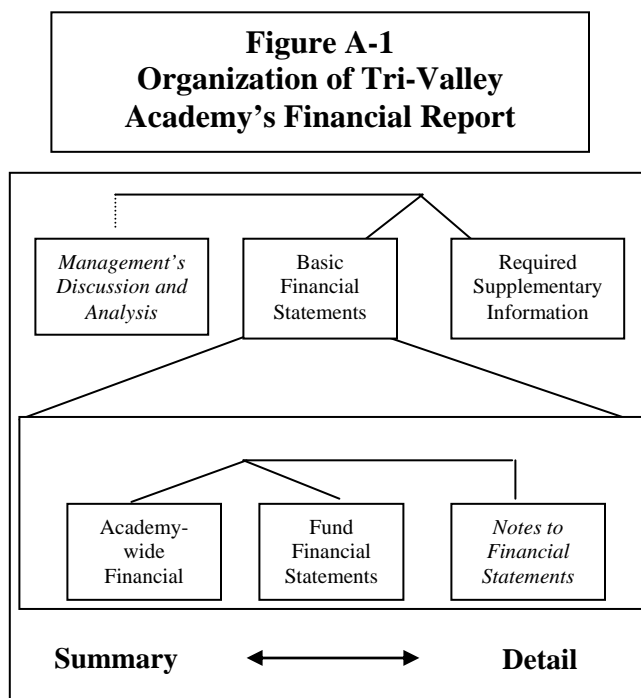


Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets  * Statement of activities	* Balance sheet  * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

### **Academy-wide statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes or show that it is properly using certain revenues (like school lunch).

The Academy has only governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets - the Academy's combined net assets of \$186,706 decreased by \$292,059 during the year. See Figures A-3 and A-4.

The total revenues decreased by 19% to \$2,258,741. State aid foundation allowance included in revenue from state sources accounts for 60% of the Academy's revenue. The blended enrollment decreased 22 students in 2008 to 183 students. This resulted in a decrease in budgeted state foundation allowance payments of approximately \$164,000.

The total cost of instruction increased by 5% to \$1,078,566. Total support services decreased by 24% to \$1,294,352.

## Academy governmental activities

**Figure A-3**  
**Tri-Valley's Net Assets**

	2008	2007
Current assets	\$ 517,655	\$ 741,091
Capital assets, net	21,836	99,038
Total assets	539,491	840,129
Current liabilities	352,785	361,364
Net assets:		
Invested in capital assets, net of related debt	21,836	99,038
Unrestricted	164,870	379,727
Total net assets	\$ 186,706	\$ 478,765

**Figure A-4**  
**Changes in Tri-Valley's Net Assets**

	2008	2007
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 844,486	\$ 1,136,196
Charges for service	420	274
General revenues:		
State aid - unrestricted	1,360,974	1,497,752
Investment	2,871	9,457
Incoming transfers and other	49,990	78,618
Total general revenues	1,413,835	1,585,827
Total revenues	2,258,741	2,722,297
Expenses:		
Instruction	1,078,566	1,031,392
Support services	1,294,352	1,698,831
Community services	227	1,397
Food services	100,453	129,062
Outgoing transfers and other transactions	-	20,363
Loss on impairment	50,742	-
Unallocated depreciation	26,460	23,599
Total expenses	2,550,800	2,904,644
Change in net assets	\$ (292,059)	\$ (182,347)



## Financial analysis of the Academy's funds

The fund balance at June 30, 2008 is \$164,870. There was a 19% decrease in general fund revenue and a 14% decrease in expenditures. Both decreases were due to an 11% reduction in enrollment.

The general fund transferred \$10,188 to the special revenue fund to cover a food service shortfall. The excess of expenditures over revenue (prior to transfers from the general fund) in the special revenue fund was \$10,188 compared to an excess of expenditures over revenue of \$61,936 in 2007. The change between the 2008 and 2007 years predominately relates to the 2007 reduction in revenue from free and reduced meals within the National School Lunch Program as a result of the program review by the State of Michigan.

## General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated expenditures and other financing uses would exceed revenues by \$292,318, the actual results for the year showed a decrease in fund balance of \$214,857.

Actual revenues were \$71,377 less than budgeted primarily due to not expending federal funds at the level anticipated.

Actual expenditures were \$137,418 under budget due in part to federal funds not expended at the level anticipated. Additional savings was recognized in the areas of instructional staff, operations and maintenance, and administration.

A transfer from the general fund to the special revenue fund was \$11,420 less than budgeted.

## Capital assets

As of June 30, 2008, the Academy had invested \$21,836 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$77,202 from the beginning of the year. Total depreciation expense for the year was \$26,460. Impairment on assets resulted from the closure of the Academy. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

<b>Figure A-5</b>					
<b>Tri-Valley's Capital Assets</b>					
	<b>2008</b>				<b>2007</b>
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Impairment</b>	<b>Net Book Value</b>	<b>Net Book Value</b>
Buildings	\$ 153,342	\$ 103,064	\$ 49,378	\$ 900	\$ 60,501
Leasehold improvements	69,858	68,494	1,364	-	1,775
Furniture and equipment	65,548	44,612	-	20,936	36,762
Total	<u>\$ 288,748</u>	<u>\$ 216,170</u>	<u>\$ 50,742</u>	<u>\$ 21,836</u>	<u>\$ 99,038</u>

### **Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- Grand Valley State University is the authorizing governing body for the Academy and has contracted to charter the Academy through June 30, 2008. GVSU did not renew the Charter nor was the Academy able to obtain authorization to operate a public school academy from another organization. As a result, the Academy ceased substantially all operations as of June 30, 2008.

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

## **BASIC FINANCIAL STATEMENTS**

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	<b>ASSETS</b>	<b>Governmental activities</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents		\$ 11,545
Due from other governmental units		457,133
Prepaid expenses		<u>48,977</u>
<b>TOTAL CURRENT ASSETS</b>		<u>517,655</u>
<b>NONCURRENT ASSETS:</b>		
Capital assets		288,748
Less accumulated depreciation		<u>(266,912)</u>
<b>TOTAL NONCURRENT ASSETS</b>		<u>21,836</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 539,491</u></u>
	<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>		
Accounts payable		\$ 42,750
Deferred revenue		86,123
Other accrued expenses		159,089
Note payable		<u>64,823</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>352,785</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt		21,836
Restricted for subsequent years expenses and repayment to the Michigan Department of Education		<u>164,870</u>
<b>TOTAL NET ASSETS</b>		<u>186,706</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><u>\$ 539,491</u></u>

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,078,566	\$ -	\$ 552,672	\$ (525,894)
Support services	1,294,352	-	201,742	(1,092,610)
Community services	227	-	227	-
Food services	100,453	420	89,845	(10,188)
Unallocated depreciation expense	26,460	-	-	(26,460)
Total governmental activities	<u>\$ 2,500,058</u>	<u>\$ 420</u>	<u>\$ 844,486</u>	<u>(1,655,152)</u>
General revenues:				
Investment earnings				2,871
State sources				1,360,974
Intermediate sources				42,914
Local sources				<u>7,076</u>
Total general revenues				<u>1,413,835</u>
SPECIAL ITEM - loss on impairment of capital assets				<u>(50,742)</u>
<b>CHANGE IN NET ASSETS</b>				<u>(292,059)</u>
<b>NET ASSETS</b> , beginning of year				<u>478,765</u>
<b>NET ASSETS</b> , end of year				<u><u>\$ 186,706</u></u>

See notes to financial statements.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

	<u>General fund</u>	<u>Other nonmajor governmental fund</u>	<u>Total governmental funds</u>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 11,545	\$ -	\$ 11,545
Due from other governmental units	440,481	16,652	457,133
Prepaid expenditures	48,977	-	48,977
Due from other funds	15,578	-	15,578
<b>TOTAL ASSETS</b>	<u><u>\$ 516,581</u></u>	<u><u>\$ 16,652</u></u>	<u><u>\$ 533,233</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 41,676	\$ 1,074	\$ 42,750
Accrued salaries and related items	159,089	-	159,089
Due to other funds	-	15,578	15,578
Deferred revenue	86,123	-	86,123
Note payable	64,823	-	64,823
<b>TOTAL LIABILITIES</b>	<u>351,711</u>	<u>16,652</u>	<u>368,363</u>
<b>FUND BALANCES:</b>			
Reserved for prepaid expenditures	48,977	-	48,977
Reserved for subsequent years expenditures and repayment to the Michigan Department of Education	115,893	-	115,893
<b>TOTAL FUND BALANCES</b>	<u>164,870</u>	<u>-</u>	<u>164,870</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 516,581</u></u>	<u><u>\$ 16,652</u></u>	<u><u>\$ 533,233</u></u>
<b>Total governmental fund balances</b>			\$ 164,870
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of the capital assets is		\$ 288,748	
Accumulated depreciation is		<u>(266,912)</u>	
			<u>21,836</u>
<b>Net assets of governmental activities</b>			<u><u>\$ 186,706</u></u>

See notes to financial statements.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2008**

	<u>General fund</u>	<u>Other nonmajor governmental fund</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>			
Local sources:			
Private sources	\$ 2,976	\$ -	\$ 2,976
Food service	-	420	420
Investment income	2,871	-	2,871
Incoming transfers and other	4,100	-	4,100
Total local sources	9,947	420	10,367
State sources	1,638,714	1,473	1,640,187
Federal sources	476,901	88,372	565,273
Intermediate school district	42,914	-	42,914
Total revenues	2,168,476	90,265	2,258,741
<b>EXPENDITURES:</b>			
Instruction:			
Basic programs	604,016	-	604,016
Added needs	474,550	-	474,550
Total instruction	1,078,566	-	1,078,566
Support services:			
Pupil	74,490	-	74,490
Instructional staff	117,856	-	117,856
General administration	280,219	-	280,219
School administration	210,732	-	210,732
Business	19,523	-	19,523
Operation and maintenance	393,877	-	393,877
Transportation	172,229	-	172,229
Central services	25,426	-	25,426
Total support services	1,294,352	-	1,294,352

See notes to financial statements.

	<b>General fund</b>	<b>Other nonmajor governmental fund</b>	<b>Total governmental funds</b>
<b>EXPENDITURES (Concluded):</b>			
Community service	\$ 227	\$ -	\$ 227
Food service	-	100,453	100,453
Total expenditures	<u>2,373,145</u>	<u>100,453</u>	<u>2,473,598</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(204,669)</u>	<u>(10,188)</u>	<u>(214,857)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in	-	10,188	10,188
Operating transfers out	<u>(10,188)</u>	<u>-</u>	<u>(10,188)</u>
Total other financing sources (uses)	<u>(10,188)</u>	<u>10,188</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(214,857)</u>	<u>-</u>	<u>(214,857)</u>
<b>FUND BALANCES:</b>			
Beginning of year	<u>379,727</u>	<u>-</u>	<u>379,727</u>
End of year	<u>\$ 164,870</u>	<u>\$ -</u>	<u>\$ 164,870</u>

See notes to financial statements.



**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008**

<b>Net change in fund balances total governmental funds</b>	\$ (214,857)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(26,460)
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Loss on impairment of assets	<u>(50,742)</u>
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<b>Change in net assets of governmental activities</b>	<u><u>\$ (292,059)</u></u>
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**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Tri-Valley Academy of Arts and Academics have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting entity**

The Tri-Valley Academy of Arts and Academics (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Grand Valley State University (GVSU) is the authorizing governing body for the Academy and has contracted to charter the Academy through June 30, 2008. GVSU did not renew the Charter nor was the Academy able to obtain authorization to operate a public school academy from another organization. As a result, the Academy ceased substantially all operations as of June 30, 2008.

The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued)**

**B. Government-wide and fund financial statements (Concluded)**

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

**Other non-major fund**

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activities in the special revenue fund.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement focus, basis of accounting and basis of presentation**

**Accrual method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**Modified accrual method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**State revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2008, the Foundation allowance was based on pupil membership counts taken in February and September of 2007.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement focus, basis of accounting and basis of presentation (Concluded)**

The state portion of the Foundation is provided primarily by a state education property tax mileage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**D. Other accounting policies**

**1. Cash and equivalents**

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other accounting policies (Continued)**

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and improvements	10 - 39 years
Furniture and other equipment	5 - 10 years

As further discussed in note 4, the Academy incurred an impairment loss related to its capital assets.

The Academy’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other accounting policies (Concluded)**

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund balances and net assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

At June 30, 2008, all funds not reserved (restricted) for other purposes have been reserved (restricted) for subsequent years expenditures (expenses) and repayment to the Michigan Department of Education (MDE). The Academy is required to remit all assets remaining to the MDE after payment of all liabilities.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

2. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The Academy does not consider these amendments to be significant.

**NOTE 3 - CASH DEPOSITS - CREDIT RISK**

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2008, \$20,640 of the Academy's bank balance of \$120,640 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

Subsequent to year end, the amount of insurance was increased to cover all deposits.



**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Impairment	Balance June 30, 2008
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings	\$ 153,342	\$ -	\$ -	\$ -	\$ 153,342
Leasehold improvements	69,858	-	-	-	69,858
Equipment and furniture	65,548	-	-	-	65,548
Total capital assets being depreciated	288,748	-	-	-	288,748
Accumulated depreciation:					
Buildings	92,841	10,223	-	49,378	152,442
Leasehold improvements	68,083	411	-	1,364	69,858
Equipment and furniture	28,786	15,826	-	-	44,612
Total accumulated depreciation	189,710	26,460	-	50,742	266,912
Net governmental capital assets	\$ 99,038	\$(26,460)	\$ -	\$ (50,742)	\$ 21,836

Depreciation for the fiscal year ended June 30, 2008 amounted to \$26,460. The Academy determined it is impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

As a result of the discontinuance of operations as of June 30, 2008, the Academy assets have been written down to reflect the proceeds of capital assets sold subsequent to year end. Also see note 13.

**NOTE 5 - NOTES PAYABLE**

At June 30, 2008, the Academy has \$64,823 outstanding from a state aid anticipation note dated August 23, 2007. The note, which has an interest rate of 6.65%, matured July 21, 2008. The note is secured by future state school aid payments.

Balance July 01, 2007	Additions	Payments	Balance June 30, 2008
\$ -	\$ 664,000	\$ 599,177	\$ 64,823

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - OPERATING LEASE**

The Academy leased its building from an affiliate of a Board Member. The lease expired June 30, 2008. The Academy incurred lease expense of approximately \$273,000 for the year ended June 30, 2008.

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2008 are as follows:

<u>Receivable fund</u>		<u>Payable fund</u>	
General fund	<u>\$ 15,578</u>	Food service fund	<u>\$ 15,578</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**NOTE 8 - TRANSFERS**

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	<u>\$ 10,188</u>	Food service fund	<u>\$ 10,188</u>

Operating transfers were made to the food service fund to subsidize operating expenditures in excess of revenues.

**NOTE 9 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Grand Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2008, the Academy incurred expense of approximately \$41,000 for oversight fees.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - MANAGEMENT AGREEMENT**

The Academy entered into a two year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy was \$212,118 for the fiscal year 2008.

The Academy entered into an agreement with Choice Schools to provide services to administer the liquidation and closing of the Academy during the fiscal year 2009. The contract calls for an hourly fee of \$100 for services performed.

**NOTE 11 - PURCHASED SERVICES**

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools.

**NOTE 12 - RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize these related risks, the Academy carries commercial insurance.

**NOTE 13 - SUBSEQUENT EVENTS**

The Academy sold all of its capital assets and supplies at an auction in September 2008 for approximately \$49,000.

Subsequent to year end, the Academy incurred termination fees of approximately \$22,000 related to two operating leases.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 19,600	\$ 8,767	\$ 9,947	\$ 1,180
State sources	1,676,085	1,645,565	1,638,714	(6,851)
Federal sources	474,224	532,521	476,901	(55,620)
Intermediate sources	45,000	53,000	42,914	(10,086)
Total revenues	2,214,909	2,239,853	2,168,476	(71,377)
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	548,739	623,715	604,016	19,699
Added needs	447,528	496,901	474,550	22,351
Total instruction	996,267	1,120,616	1,078,566	42,050
Support services:				
Pupil	87,102	70,100	74,490	(4,390)
Instructional staff	178,465	182,954	117,856	65,098
General administration	277,784	286,265	280,219	6,046
School administration	188,997	207,599	210,732	(3,133)
Business	31,000	19,572	19,523	49
Operation and maintenance	385,633	391,664	393,877	(2,213)
Transportation services	190,906	195,993	172,229	23,764
Central services	35,000	35,300	25,426	9,874
Total support services	1,374,887	1,389,447	1,294,352	95,095

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>EXPENDITURES: (Concluded)</b>				
Community service	\$ -	\$ 500	\$ 227	\$ 273
Total expenditures	2,371,154	2,510,563	2,373,145	137,418
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(156,245)	(270,710)	(204,669)	66,041
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers out	-	(21,608)	(10,188)	11,420
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (156,245)</u>	<u>\$ (292,318)</u>	<u>(214,857)</u>	<u>\$ 77,461</u>
<b>FUND BALANCE:</b>				
Beginning of year			379,727	
End of year			<u>\$ 164,870</u>	

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**

**ADDITIONAL REPORTS REQUIRED BY  
OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2008**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Tri-Valley Academy of Arts and Academics

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-Valley Academy of Arts and Academics as of and for the year ended June 30, 2008, which collectively comprise Tri-Valley Academy of Arts and Academics' basic financial statements and have issued our report thereon dated February 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Tri-Valley Academy of Arts and Academics' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tri-Valley Academy of Arts and Academics' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner Costerisan PC

February 9, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Tri-Valley Academy of Arts and Academics

**Compliance**

We have audited the compliance of Tri-Valley Academy of Arts and Academics with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Tri-Valley Academy of Arts and Academics' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Tri-Valley Academy of Arts and Academics' management. Our responsibility is to express an opinion on Tri-Valley Academy of Arts and Academics' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tri-Valley Academy of Arts and Academics' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Tri-Valley Academy of Arts and Academics' compliance with those requirements.

In our opinion, Tri-Valley Academy of Arts and Academics complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

### **Internal Control Over Compliance**

The management of Tri-Valley Academy of Arts and Academics is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Tri-Valley Academy of Arts and Academics' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tri-Valley Academy of Arts and Academics as of and for the year ended June 30, 2008, and have issued our report thereon dated February 9, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Tri-Valley Academy of Arts and Academics' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner Costerisan PC*

February 9, 2009

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2007	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch Program - Breakfast	10.553	071970	\$ 18,501	\$ (10,763)	\$ 14,686	\$ (6,948)	\$ 3,815	\$ -
National School Lunch Program - Breakfast	10.553	081970	27,182	-	-	20,946	27,182	6,236
National School Lunch Program - Section 4	10.555	071950	6,026	866	5,331	1,561	695	-
National School Lunch Program - Section 4	10.555	081950	5,012	-	-	3,954	5,012	1,058
National School Lunch Program - Section 11	10.555	071960	28,450	(20,110)	17,450	(9,080)	11,030	-
National School Lunch Program - Section 11	10.555	081960	40,638	-	-	31,280	40,638	9,358
National School Lunch Program - Snacks	10.553	071980	1,104	(2,810)	1,104	(2,810)	-	-
Total Child Nutrition Cluster/U.S. Department of Agriculture			126,913	(32,817)	38,571	38,903	88,372	16,652
<u>U.S. Department of Education:</u>								
Passed through New City Academy:								
Safe and Drug Free Schools - Community Service Grant	84.184B	Q184B041314	988,270	30,249	416,283	30,249	-	-
Passed through Michigan Department of Education:								
Title I	84.010	0715300607	245,568	73,224	193,611	125,181	51,957	-
		0815300708	231,093	-	-	161,261	231,093	69,832
			476,661	73,224	193,611	286,442	283,050	69,832
Service Provider Self Review	84.027	804400708	4,000	-	-	-	4,000	4,000
Title V, Part A	84.298	0602500607	3,210	3,210	3,210	3,210	-	-
		0702500607	1,851	1,851	1,851	1,851	-	-
		0802500708	37	-	-	-	37	37
			5,098	5,061	5,061	5,061	37	37

The accompanying notes are an integral part of this schedule.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2007	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Education (Continued):</u>								
Title II, Part D -								
Enhancing Education Through Technology	84.318	0642900607	\$ 3,237	\$ 3,237	\$ 3,237	\$ 3,237	\$ -	\$ -
		0742900607	2,628	2,628	2,628	2,628	-	-
		0842900708	2,074	-	-	1,472	2,074	602
			7,939	5,865	5,865	7,337	2,074	602
Reading First Competitive Grant	84.357	0729300607	129,257	26,275	124,099	30,043	3,768	-
		0829300708	139,725	-	-	97,517	115,146	17,629
			268,982	26,275	124,099	127,560	118,914	17,629
Title II, Part A -								
Improving teacher quality	84.367	0705200607	48,203	1,559	28,274	11,353	9,794	-
		0805200708	40,443	-	-	-	2,078	2,078
			88,646	1,559	28,274	11,353	11,872	2,078
Total passed through Michigan Department of Education			851,326	111,984	356,910	437,753	419,947	94,178
Passed through Muskegon County Intermediate School District:								
Individuals with Disabilities Education Act	84.173	0604600506	1,604	1,604	1,604	1,604	-	-
		0704500607	50,174	25,936	50,174	25,936	-	-
		0804500708	31,465	-	-	21,071	31,465	10,394
			83,243	27,540	51,778	48,611	31,465	10,394
Total U.S. Department of Education			1,922,839	169,773	824,971	516,613	451,412	104,572
<u>U.S. Department of Health and Human Services:</u>								
Passed through Muskegon County Intermediate School District:								
Medicaid Outreach	93.778		16,680	4,935	16,680	4,935	-	-
			25,489	-	-	22,148	25,489	3,341
			42,169	4,935	16,680	27,083	25,489	3,341
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,091,921	\$ 141,891	\$ 880,222	\$ 582,599	\$ 565,273	\$ 124,565

The accompanying notes are an integral part of this schedule.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Tri-Valley Academy of Arts and Academics and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. CFDA #84.010 was audited as the major program, representing 50% of expenditures. The Academy qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) and Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 476,901
Special revenue fund	<u>88,372</u>
Subtotal	<u><u>\$ 565,273</u></u>



**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008**

**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued:

*Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs:

*Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

\_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B

\$300,000

Auditee qualified as low-risk auditee?

  X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

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None

**Section III - Federal Award Findings and Questioned Costs**

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None

February 9, 2009

To the Board of Directors  
Tri-Valley Academy of Arts and Academics

We have audited the financial statements of Tri-Valley Academy of Arts and Academics for the year ended June 30, 2008, and have issued our report thereon dated February 9, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Tri-Valley Academy of Arts and Academics' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Tri-Valley Academy of Arts and Academics' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Tri-Valley Academy of Arts and Academics' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Tri-Valley Academy of Arts and Academics' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Tri-Valley Academy of Arts and Academics' compliance with those requirements.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the President of the Board of Directors in our discussions about planning matters.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tri-Valley Academy of Arts and Academics are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

A \$50,742 loss on impairment of capital assets was recorded at June 30, 2008 to reflect the effects of the closure of the Academy. The proceeds, net of commissions, from the auction held subsequent to year end were used to determine if an impairment was incurred. In addition, the Academy incurred approximately \$22,000 of termination fees related to two operating leases terminated after year end. These amounts will be recorded in the fiscal year 2009.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures to report.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 9, 2009.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Tri-Valley Academy of Arts and Academics and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner Costerisan PC*